

30 July 2018

Consumer Non-cyclical | Healthcare

Singapore Medical

Buy (Maintained)

Attractive Defensive Option

Target Price: SGD0.56
 Price: SGD0.43
 Market Cap: USD149m
 Bloomberg Ticker: SMG SP

Maintain BUY as SMG is one of the rare few players likely to deliver strong PATMI growth of 40% in FY18F. With the Singapore government keeping a close eye on rising healthcare costs (especially in the private sector), amid a challenging operating environment medical sector players – especially those in the small- to mid-cap space – have de-rated to an average of 21.5x P/E from 25x P/E. As a result, we lower our DCF TP to SGD0.56 from SGD0.68, offering 30% upside, backed by the new small- to mid-cap healthcare sector average of 21.5x.

Share Data

Avg Daily Turnover (SGD/USD) 0.16m/0.12m
 52-wk Price low/high (SGD) 0.42 - 0.65
 Free Float (%) 39
 Shares outstanding (m) 459
 Estimated Return 30%

Shareholders (%)

Tony Tan Choon Keat 20.2
 Dr Beng Teck Liang 17.9
 Silver Mines Global Limited 15.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.2)	(5.5)	(12.3)	(28.9)	(31.8)
Relative	(22.9)	(7.7)	(5.2)	(22.1)	(30.9)

Source: Bloomberg

Policy changes and stiff competition causing sector de-rating. With the government monitoring rising healthcare costs, especially in the private sector, medical stocks in Singapore (particularly the small- to mid-caps) have generally de-rated in 2018. This is amid a backdrop of headwinds such as rising competition from foreign healthcare players, as well as new policies and guidelines to temper the rise in healthcare costs. The small- to mid-cap medical stocks typically trading around 23-30x P/E have now largely dropped to 16-24x. The sector average is 21.5x FY18F P/E.

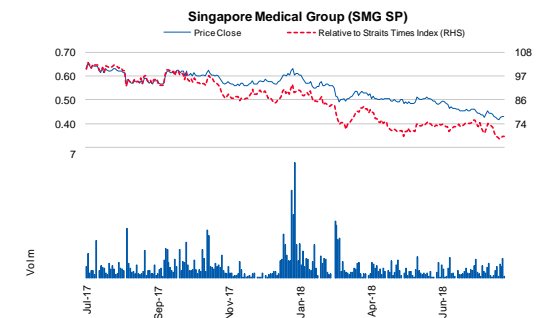
Strong PATMI growth estimate of about 40% YoY. With organic growth still strong at double-digit levels despite an estimated drop in medical tourism numbers, we believe SMG is doing the right things to capture market share in the private medical practice space from its competitors.

In addition, we expect SW1 Clinic, which is already profitable, to contribute positively to the group's bottomline from 2Q18. As such, we expect SMG to deliver strong PATMI growth of 40% YoY for FY18F.

Narrowing losses in Vietnam accompanied by further expansion in Australia. Its Vietnam operations lost SGD800,000 last year, but management expects operations there to break even by the end of 2018. Management is optimistic about growth in Australia, especially in the *in vitro* fertilisation (IVF) space, and is open to more acquisitions in the future. Following the acquisition of SW1 Clinic, SMG is also in advanced stages of its plans to scale its aesthetics platform out into the region. Vietnam and Indonesia have been identified as a natural progression, due to SMG's existing footprint in both countries.

TP lowered to SGD0.56, in line with peers, with DCF growth rate assumption reduced (TG: 1%, from 1.5%) to factor in these headwinds and the rights issue. Our new TP reflects a 21.5x P/E, in line with the sector average. However, the stock trades at an attractive discount to its peers, which may represent a good opportunity for investors.

Key risks include a slowdown in medical tourism and doctors leaving the group after the lock-in period.



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	41.6	68.0	86.5	92.7	99.3
Reported net profit (SGDm)	2.4	8.7	12.3	13.4	14.2
Recurring net profit (SGDm)	2.4	8.7	12.3	13.4	14.2
Recurring net profit growth (%)	1111.5	260.4	40.4	9.3	5.6
Recurring EPS (SGD)	0.01	0.02	0.03	0.03	0.03
DPS (SGD)	na	na	na	na	na
Recurring P/E (x)	49.0	22.6	16.6	15.7	14.9
P/B (x)	5.10	1.82	1.53	1.40	1.28
P/CF (x)	26.2	15.4	10.4	11.6	12.3
Dividend Yield	na	na	na	na	na
EV/EBITDA (x)	24.6	14.4	7.5	6.9	6.4
Return on average equity (%)	14.4	13.3	10.0	9.3	9.0
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-07-26.

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.01	0.02	0.03	0.03	0.03
Consumer Non-cyclical	EPS (SGD)	0.01	0.02	0.03	0.03	0.03
Singapore Medical	BVPS (SGD)	0.08	0.24	0.28	0.31	0.34
Bloomberg SMG SP	Weighted avg adjusted shares (m)	276	459	475	490	490
Buy						
	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Valuation basis	Recurring P/E (x)	49.0	22.6	16.6	15.7	14.9
DCF-backed TP of SGD0.56 (TG: 1%, WACC: 7.7%)	P/E (x)	49.0	22.6	16.6	15.7	14.9
	P/B (x)	5.10	1.82	1.53	1.40	1.28
Key drivers	FCF Yield (%)	2.9	3.9	8.4	8.4	7.9
Acquisitions and organic growth	EV/EBITDA (x)	24.6	14.4	7.5	6.9	6.4
	EV/EBIT (x)	35.2	18.1	10.2	8.7	7.4
Key risks	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Ability to attract and retain doctors and specialists, execution risks	Total turnover	41.6	68.0	86.5	92.7	99.3
	Gross profit	14.9	29.0	35.8	38.5	40.9
Company Profile	EBITDA	4.5	12.9	21.3	21.3	20.6
Singapore Medical Group is engaged in the operation of medical clinics and provision of general medical services and investment holdings. It operates through three segments, namely health, aesthetics and diagnostics.	Depreciation and amortisation	(1.4)	(2.6)	(5.8)	(4.4)	(2.7)
	Operating profit	3.2	10.2	15.5	16.9	17.8
	Net interest	(0.1)	(0.7)	(0.6)	(0.6)	(0.6)
	Pre-tax profit	3.0	9.5	15.0	16.3	17.3
	Taxation	(0.2)	(0.8)	(2.7)	(2.9)	(3.1)
	Minority interests	(0.5)	0.0	0.0	0.0	0.0
	Recurring net profit	2.4	8.7	12.3	13.4	14.2
	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	0.11	0.44	1.08	(0.23)	(0.25)
	Cash flow from operations	4.53	12.79	19.68	18.11	17.20
	Capex	(1.13)	(5.01)	(2.50)	(0.50)	(0.50)
	Cash flow from investing activities	(2.52)	(22.20)	(2.48)	(0.48)	(0.48)
	Proceeds from issue of shares	0.29	15.93	17.30	0.00	0.00
	Dividends paid	(0.16)	(0.23)	(0.23)	(0.23)	(0.23)
	Cash flow from financing activities	(0.63)	22.94	16.50	(0.80)	(0.80)
	Cash at beginning of period	6.47	7.82	21.33	55.01	71.82
	Net change in cash	1.38	13.53	33.71	16.84	15.92
	Ending balance cash	7.85	21.35	55.04	71.85	87.74
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	7.8	21.3	55.0	71.8	87.7
	Tangible fixed assets	7.4	13.5	10.2	6.4	4.1
	Intangible assets	9.6	119.2	119.2	119.2	119.2
	Total investments	1.6	1.5	1.5	1.5	1.5
	Total other assets	1.6	2.5	2.5	2.5	2.5
	Total assets	34.4	167.6	198.1	211.5	225.7
	Short-term debt	0.6	2.3	2.3	2.3	2.3
	Total long-term debt	0.6	7.4	7.4	7.4	7.4
	Other liabilities	1.8	18.3	18.3	18.3	18.3
	Total liabilities	10.5	59.3	60.5	60.7	60.9
	Shareholders' equity	23.3	108.3	137.6	150.8	164.7
	Minority interests	0.6	0.1	0.1	0.1	0.1
	Total equity	23.9	108.3	137.7	150.8	164.8
	Net debt	(6.6)	(11.6)	(45.3)	(62.1)	(78.0)
	Total liabilities & equity	34.4	167.6	198.1	211.5	225.7
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	34.3	63.5	27.3	7.1	7.2
	Recurrent EPS growth (%)	1111.5	116.5	35.9	5.9	5.6
	Gross margin (%)	35.8	42.6	41.4	41.6	41.2
	Operating EBITDA margin (%)	10.9	18.9	24.6	23.0	20.7
	Net profit margin (%)	5.8	12.8	14.2	14.5	14.2
	Capex/sales (%)	2.7	7.4	2.9	0.5	0.5
	Interest cover (x)	27.2	14.1	27.1	29.5	31.1

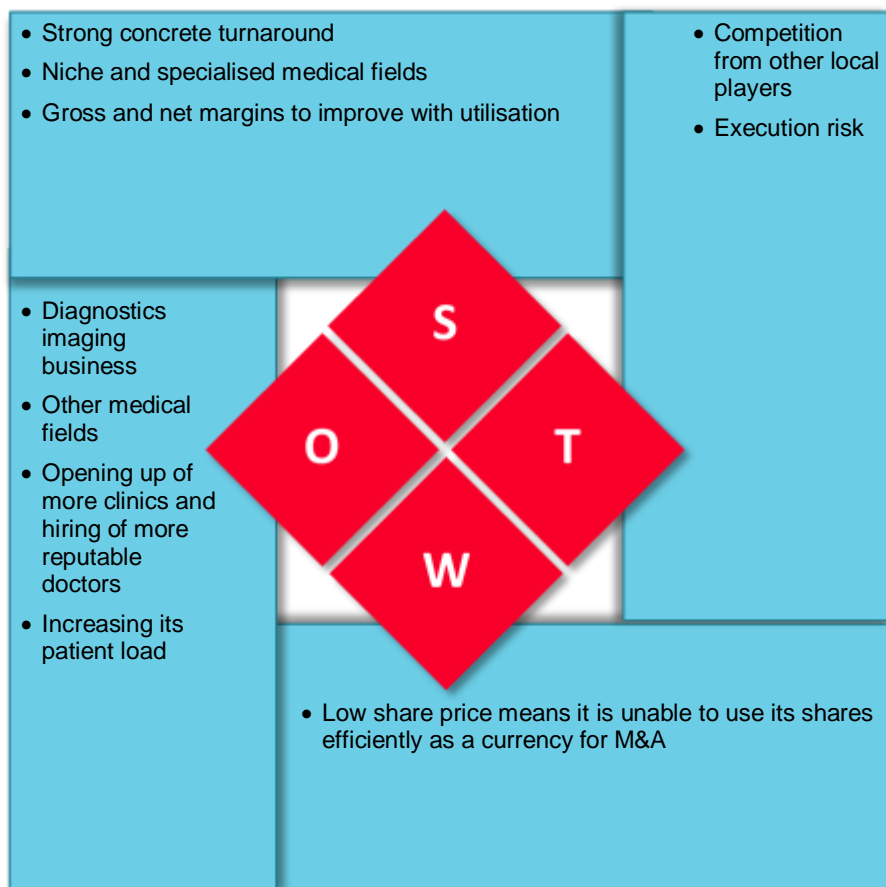
Source: Company data, RHB

Figure 1: Peer comparison

Ticker	Company	Price (25 Jul)	Current P/E (x)	FY18F P/E (x)	Dividend Yield (%)	Current P/BV (x)	Debt / Equity	ROE (%)	EV/EBITDA (x)
SMG SP Equity	SINGAPORE MEDICAL GROUP LTD	0.425	21.3	16.6	n.a.	1.8	10.6	13.7	18.6
ISEC SP Equity	ISEC HEALTHCARE LTD	0.295	18.2	18.2	4.7	2.2	0.0	12.7	10.9
SOG SP Equity	SINGAPORE O&G LTD	0.355	19.9	19.4	4.3	3.8	0.0	20.3	18.3
TKMED SP Equity	TALKMED GROUP LTD	0.640	29.1	29.0	3.3	11.0	0.0	38.5	23.4
HSP SP Equity	HC SURGICAL SPECIALISTS LTD	0.665	22.2	22.9	3.1	6.0	13.2	30.0	16.5
HMI SP Equity	HEALTH MANAGEMENT INTL LTD	0.580	25.5	23.5	0.6	6.2	97.1	18.8	17.6
AHSP SP Equity	ASIAN HEALTHCARE SPECIALISTS	0.270	n/a	20.8	0.7	35.4	0.0	26.8	n/a
	Average		22.7	21.5	2.8	9.5	17.3	23.0	17.5

Source: Bloomberg, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-15	Buy	0.68	0.51
2018-03-01	Buy	0.68	0.56
2017-10-19	Buy	0.79	0.62
2017-04-23	Buy	0.79	0.62
2017-02-28	Buy	0.65	0.59
2017-02-17	Buy	0.59	0.56
2017-01-09	Buy	0.63	0.44
2016-10-11	Buy	0.63	0.42
2016-08-10	Buy	0.45	0.27

Source: RHB, Bloomberg

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a) -

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